The Upshot
ECONOMICS ACROSS STATES

# North Carolina’s Misunderstood Cut in Jobless Benefits

JULY 26, 2014

**Justin Wolfers**

Since North Carolina effectively eliminated unemployment benefits last year for people unemployed 20 weeks or more, the state has become a symbol in the partisan wars over economic policy. People on either side of those wars have argued that it proves the economic advantages — or damage — of providing the long-term jobless with cash payments.

But digging into the data suggests North Carolina should really be a case study in people seeing what they want to see. Over the last year, the state’s economy has performed remarkably like the economy in nearby states.

North Carolina is more than a case study, too. It is a laboratory for the rest of the country, given that at the start of this year, the federal government eliminated all benefits for the long-term unemployed. Both political sides have looked to North Carolina for evidence to bolster the positions they have taken in this debate.

Republicans, who voted against extending unemployment benefits, argue that ending benefits will spur the long-term jobless to look harder for work; with more eager workers, employment will rise, conservatives say. Democrats, many of whom voted to continue jobless benefits for the long-term unemployed, say that ending benefits will force the unemployed to cut their spending, which may have broader ripple effects that could slow the labor market recovery.

My reading of the North Carolina experiment is that it provides little support for either side.

The question of whether to provide those benefits is an important one. But perhaps the answers should depend more on social values than on macroeconomic implications. After all, the point of unemployment insurance isn’t to boost the economy as a whole, but rather to ensure that an unlucky few don’t shoulder an unbearable burden. Whether we’re doing that is a question more of values than of economic statistics.

Let’s dig into the details on North Carolina. The policy shift was particularly striking because most of the cost of providing benefits to the long-term unemployed had been paid for by the federal government. Effectively North Carolina refused to allow the federal government to put money into the pockets of those who had been without work for a long time. The stated goal was giving the unemployed more incentive to find new work.

Proponents of the policy say it succeeded. They point to the fact that the state’s economy has done quite well since the change. Employment grew by 1.5 percent over the six months since the change took effect. While this growth rate is healthy, what matters here is whether it is better or worse than it would have been without such a policy shift.

To shed light on that issue, we need a comparison group: an otherwise similar state that made no such change. The most obvious possibility is South Carolina, a neighbor that has a broadly similar industry mix. Over the same period, nonfarm payrolls in South Carolina grew by 1.6 percent. These numbers are based on a survey of employers, which has some statistical noise to it. But an alternative and more reliable data set — known to aficionados as the Quarterly Census of Employment and Wages, which includes a head count from nearly every employer — shows a similar pattern. Employment grew by 1.3 percent in North Carolina and 1.5 percent in South Carolina, according to this census.

The unemployment rate also fell quite sharply in both states, although slightly more in North Carolina. Statistical quirks in how unemployment is measured at the state level make these comparisons less informative. Indeed, the Labor Department itself advises that its unemployment survey "provides reliable estimates of national aggregates," but "its sample is spread too thinly geographically to provide acceptable reliability at the state and sub-state level."

Among other neighboring states, Georgia and Tennessee also experienced slightly faster job growth than North Carolina (although this ranking is reversed in the less reliable nonfarm payroll series). Virginia, which was hit by the government shutdown, barely grew.

The bottom line is that North Carolina looks quite similar to its peers, and certainly not better.

Some of the claims to the contrary rely on the fact that North Carolina has outperformed the rest of the country. But that's largely a function of the South's having faster job growth than other regions. It would be silly to attribute the more rapid growth across the region to a policy enacted only in one state.

Moreover, there are enough noisy indicators that pundits have been able to cherry-pick specific numbers to support stronger claims, even though they are at odds with the broader trends seen in the most reliable of these statistics.

Half a year after North Carolina's change, it took on added importance, because the federal government took a similar step. In particular, at the start of 2014, Congress declined to renew the federal program that funded extended unemployment benefits for the long-term unemployed. In most states, this was a huge shift, spelling the end to benefits for the long-term jobless.

Some conservatives have argued that the subsequent improvement in the labor market this year is proof that ending extended benefits was a wise policy; the acceleration of job growth, in their view, was caused partly by the benefits cut. However, this conclusion follows only if the economy improved by more than it would have if there were no policy change. Once again, what is needed is a comparison group: a state that didn't cut benefits at the start of this year.

This is where North Carolina becomes important again. The cut in federal funding had no effect in North Carolina, because it wasn't accepting that funding. This makes it the ideal "control group." By contrast, in neighboring South Carolina, the policy shift caused the duration of unemployment benefits to be cut to 20 weeks. If cutting benefits boosts the labor market, the policy change should have led South Carolina to outperform North Carolina in 2014.

Yet over the six months since federal benefits ended, nonfarm payrolls grew by 0.6 percent in South Carolina and 0.4 percent in North Carolina. Again, the trends in the two states remain strikingly similar. There's simply no evidence in either case study that cutting benefits cuts unemployment.

How, then, have advocates come to different conclusions? They have relied on evidence that isn't really evidence, often to support conclusions that fit their pre-existing views. It can make for claims that sound persuasive on the surface but do not stand up to scrutiny.

The 50 states in this country are often called laboratories of democracy. They can also be laboratories of economics.

Justin Wolfers is a senior fellow at the Brookings Institution and professor of economics and public policy at the University of Michigan. Follow him on Twitter at @justinwolfers.



A version of this article appears in print on July 27, 2014, on page SR3 of the New York edition with the headline: Can Cutting Jobless Benefits Lift the Economy?.